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Mini Presentation

Turnover and Output Measurement for Travel Agency Activities

NACE 79.11

Joseph Keating

Central Statistics Office, Ireland

1. Definition of service being collected

The statistical classification of NACE 79.11 *Travel Agency Activities* in the European Union (NACE Rev.2) is part of division 79 *Travel Agency, Tour Operator and other reservation service and related activities* within section N *Administrative and Support Service Activities*.

The NACE classification system defines Nace 79.11 *Travel Agency activities* as follows;

'This class includes activities of agencies primarily engaged in selling travel, tour, transportation and accommodation services on a wholesale or retail basis to the general public and commercial clients.'

The travel agent typically has no input in organising the travel, tour, transportation and accommodation services they are selling. This distinguishes them from NACE 79.12 *Tour Operator Activities*, which is defined as;

'Arranging or assembling tours that are sold by travel agencies or directly by tour operators.'

2. Unit of measure being collected

The two Central Statistics Office (CSO) surveys that output information from travel agencies are the Annual Services Inquiry (ASI) and the Monthly Services Inquiry (MSI). The MSI collects turnover only. The ASI collects a wide range of variables, including turnover and gross value added (GVA). In both surveys the statistical unit from which the data is collected is the enterprise. This is as required by Eurostat in the Structural Business Statistics Regulation (number 295/2008) and the Short Term Statistics regulation (number 1165/98).

3. Market conditions and constraints

The following table, taken from Annual Services Inquiry data, shows that Employment and Turnover in Travel Agencies in Ireland is fairly evenly split between enterprises with fewer than 10 persons employed, those with 10 to 49 persons employed, and those with 50 or more persons employed.

Table 1: Number of Enterprises, Persons Employed, and € Turnover (thousands) in NACE 79.11 Travel Agencies 2012, by numbers of persons employed.

Persons Employed	Enterprises	Persons Employed	Turnover € 000's	Enterprises percentage	Persons Employed percentage	Turnover percentage
1 to 9	178	789	227,749	84%	41%	26%
10 to 49	25	583	289,572	12%	30%	33%
50 or more	7	550	353,249	4%	29%	41%
Total	210	1,922	870,570			

Comment [NOH1]: Can you include € in the table also?

The total GVA for 2012 was €67 million, or 7.6% of total turnover. GVA is relatively low because of the high cost of sales, which made up 88% of turnover. The total Gross Operating Surplus, at €8.7 million, was 1% of total turnover.

Travel Agencies have undergone a huge change since the 1990's. Up to then their most reliable source of revenue was commissions on the sale of airline tickets. In Europe this commission was

typically 9% of the value of the ticket¹. In 1995 seven airlines in America capped the commission paid to travel agents for their flights at 50 dollars for domestic flights. In 1998 these airlines capped commission paid for international flights at 100 dollars, in 1999 commissions were reduced to 5% of the ticket price, and in 2002 they were eliminated altogether in America. In Europe a similar process began in 1997. Commissions were at that time 9% of ticket prices but by 2007 only a minority of European airlines paid any commission to travel agents. For example, the Irish national carrier Aer Lingus reduced its commission to 1% in 2003 and eliminated commission entirely in 2011.

The ability of airlines to reduce and/or discontinue commission payments was reinforced by their new ability to sell tickets directly over the internet. In the 1990's airlines sold less than 10% of their tickets directly (e.g. by telephone or from their own shops). It is estimated that over half of airline tickets worldwide are now sold directly by airlines, with low-cost carriers selling a higher percentage directly.²

Travel agents may still sometimes receive commission for booking flights. This comes from the Global Distribution System (GDS) through which they book the flight. GDS's are computerised reservations systems and they charge the airline a fee for each flight booked, sometimes passing some of this to the travel agent.³

Some travel agents were able to compensate for the loss of revenue from charging airlines commissions to charging travellers, particularly business travellers, customer service fees for arranging and booking flights. Travel Agents also charge commissions on selling package holidays or cruises. Other sources of revenue are from extras such as car hire, or by creating custom designed trips.

As in the case of airlines, some of these other sources of revenue for travel agents have also attempted to reduce the commission they pay. For example, cruise lines include non-commissionable fees (NCF) in their prices. The travel agent can only get commission as a percentage of the commissionable part of the price.

The internet has led travellers to be much less dependent on travel agents than formerly. The following table from the CSO's Household Travel Survey shows how common it is for Irish people to book their flights and accommodation directly, rather than through a travel agent. It also shows that package holidays are still booked from a travel agent or tour operator in the majority of cases.

¹ Information in this paragraph is taken from the document 'Service Fees and Commission Cuts' by the Amadeus company. See

http://www.amadeus.com/travelagencies/documents/travelagencies/White%20Paper_ForWebUse.pdf

² http://conference2013.switchfly.com/pdf/HHarteveldt_HudsonCrossing.pdf

³ The Economist 'The ineluctable middlemen' <http://www.economist.com/node/21560866>

Table 2. Outbound travel by Irish Residents - percentage distribution of trips taken classified by Method of Booking, Quarter 3, 2013

Comment [NOH2]: Can you put % into the column headers

	Package %	Transport %	Accommodation %
Direct	26.3	84.6	57.9
Via travel agent/tour operator	72.1	6.7	9.3
No booking required/ Don't know	1.6	8.6	32.8
Total	100	100	100

Some of the accommodation classified in this table as being booked 'Direct' may have been booked through an online travel agent (OTA), which people may not think of as a travel agency at all. OTAs sometimes offer all the products that a traditional travel agent does, but a large proportion of their revenue tends to come from hotel accommodation, where commission rates are still high. There are two competing models in this area, the 'merchant model' and the 'agency model'. In the merchant model, the OTA negotiates to buy a certain amount of the hotel's inventory. It then sells it online, typically with a 20% to 30% commission. The customer pays the OTA, and the OTA pays the hotel later. In the 'agency model', there is no agreement on how much inventory the OTA will sell. The OTA takes a commission on every room booked through its website. This commission is typically smaller than in the merchant model. Under the agency model, the customer has the option to pay on the OTA website or when they check in at the hotel.

There are also companies that provide travel metasearch engines, enabling the customer to compare the prices being offered by the various OTAs. They earn money from the OTAs on a Cost per Click (CPC) or Cost per Action (CPA) basis.

The pressures on the travel agency business, together with the impact of the recession in Ireland, are shown by the table below, taken from Business Demography results. It shows that the number of persons employed in the industry in Ireland decreased by over one-third between 2006 and 2012.

Table 3. Index of Enterprises and Employees in Travel Agencies (NACE 79.11, 2006-2012), 2006 = 100

	2006	2007	2008	2009	2010	2011	2012
Active Enterprises	100.0	100.3	100.0	96.4	89.0	90.0	91.6
Employees	100.0	98.9	94.3	76.1	61.8	62.2	63.0

4. Standard classification structure and product details/levels

4.1 Industrial Classification

Ireland uses the Statistical Classification of Economic Activities in the European Community NACE Rev.2 for national purposes. Travel Agency Activities are classified as NACE 79.11, part of the division

79 *Travel Agency, Tour Operator and other reservation service and related activities* within section N *Administrative and Support Service Activities*.

79 Travel Agency, Tour Operator and other reservation service and related activities

79.11 Travel Agency Activities

79.12 Tour Operator Activities

7990 Other reservation service and related activities

4.2 Product Classification

Ireland uses the EU CPA 2008 for product classification. There are 8 products at CPA 8-digit level that are part of the 4-digit level 79.11 *Travel Agency Services*.

79.11.1 Travel agency services for transport reservations

79.11.11 Reservation services for airlines

79.11.12 Reservation services for railways

79.11.13 Reservation services for buses

79.11.14 Reservation services for vehicle rental

79.11.19 Other travel agency services for transport reservations

79.11.2 Travel agency services for reservation of accommodation, cruises and package tours

79.11.21 Reservation services for accommodation

79.11.22 Reservation services for cruises

79.11.23 Reservation services for package tours

5. Evaluation of standard vs. definition and market conditions

With some enterprises it may not be clear whether they should be classified as NACE 79.11 *Travel Agency Activities* or NACE 79.12 *Tour Operator Activities*. In general, tour operators will have lower cost of sales than travel agents (because they have themselves organized at least some of the services they are selling), and so their gross value added will be a higher percentage of turnover. If an enterprise classified as NACE 79.11 has relatively low cost of sales and relatively high GVA, it may be a sign that it is misclassified and should be more appropriately classified as a tour operator.

6. National Accounts concepts and measurement issues related to GDP measurement

The NACE Rev.2 classification system is used in both annual and quarterly National Accounts publications. It has been used in the annual 'National Income and Expenditure (NIE)' since the 2011 release. It has been used in the Quarterly National Accounts since the quarter 1 2012 release. This replaced the previously used national classification system.

The 'National Accounts Output and Value Added by Activity' release for 2002-2009, and the release for 2010 (the most recent release) also use the NACE Rev.2 classification system.

In Ireland, annual Gross Domestic Product (GDP) has traditionally been collected using the Income and Expenditure methods only. The expenditure method makes some use of the Annual Services Inquiry, but in the case of travel agents, because the ASI does not identify turnover/output by end user type, it cannot distinguish between the final expenditure of consumers and business expenditure.

Annual GDP has been calculated in the 'National Accounts Output and Value Added by Activity' release for 2002-2009 (released in 2012), and the release for 2010 (released 2014). These estimates of GDP using the Output Method are compiled in line with the European System of Accounts 1995 (ESA95). This is transitional work to enable the CSO to meet the requirements of the European System of Accounts 2010 (ESA2010). Calculation of GDP from the output method uses turnover and output data from the Annual Services Inquiry, among other sources.

In 2010, the Value Added at basic prices of NACE 79 *Travel Agency, Tour Operator and other reservation service and related activities* accounted for 0.16% of the total Value Added in Ireland.

Quarterly GDP is calculated using the Output and Expenditure Methods. Calculation of GDP from the output method uses turnover data from the Monthly Services Inquiry.

7. Turnover data methods and criteria for choosing different output methods

7.1 Annual Services Inquiry

Structural Business Statistics (SBS) cover industry, construction, trade and services. They describe the structure, conduct and performance of businesses in Ireland and across the EU. The main indicators within SBS include numbers of enterprises, persons employed, turnover, cost of sales, expenses, investment in capital and gross value added.

The Annual Services Inquiry (ASI) is the primary source for structural business statistics on the traded services sector in Ireland. It is a sample survey that collects profit and loss and balance sheet type information from enterprises annually.

Using ASI results, turnover figures for NACE 79.11 are sent to Eurostat annually, in compliance with the Eurostat Structural Business Statistics Regulation (number 295/2008).

7.2 Monthly Services Inquiry

The Monthly Services Inquiry was introduced in January 2009 to meet user demands for a short-term indicator on the performance of the services sector. It collects the monthly turnover of an enterprise. It monitors trends in output at current prices of enterprises in the non-financial traded services sector. This is the first step in the development of a Services Production Index that measures gross value added changes at constant prices, i.e. a volume index. The total sample size is approximately 2,100 enterprises, of which 48 are classified within NACE 79 and 31 within NACE 79.11.

Using MSI results, a turnover index for NACE 79 (Travel Agency, Tour Operator and other reservation service and related activities) is sent to Eurostat every quarter. This complies with the Eurostat Short Term Statistics Regulation (number 1165/98).

7.3 Business Demography

The data for Business Demography are based on the CSO Central Business Register. The Business Register is a register of all enterprises that are active in the State and is based on enterprises that are registered for tax purposes with the Revenue Commissioners.

Comment [NOH3]: Is it worth including some sample results?

Information provided from the Business Demography source includes statistics on the number of enterprises, number of enterprise births and deaths, the survival rates of newly born enterprises, along with employment figures related to each of these statistics. Turnover information is contained in most enterprise level records, however an aggregate series has not yet been produced.

8. Evaluation of comparability of turnover data with price index practices

No producer price indices are currently produced for the activities in Ireland.

9. Summary

Travel Agents are a small part of the Irish economy. There has been considerable change in the business in the last twenty years, with the elimination of their most reliable source of income, commission from airline tickets. The ability of consumers to book more of their travel needs directly over the internet has also put severe pressure on the industry. Online Travel Agents are one response to these pressures. This new type of travel agent generates much of its revenue from booking hotel accommodation, where it is still possible to get high commission rates.

Turnover data is collected from Travel Agents through the Annual Services Inquiry and Monthly Services Inquiry. Business Demography data also provides turnover data for most enterprises. National Accounts use data from the ASI in producing annual GDP figures, and MSI data in producing Quarterly GDP figures.

The NACE Rev.2 classification is used by all these surveys, and has been used in National Accounts since 2011.